

Message Text

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44-S

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R 141300Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 329

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 5765

E. O. 11652: GDS

TAGS: OVIP, (ROBINSON, CHARLES A), EFIN, ECON, BR, US

SUBJECT: UNDER SECRETARY ROBINSON'S CONSULTATIONS IN BRAZIL:

PART C - MEETING WITH FINANCIAL OFFICIALS

REF: BRASILIA 5761

PART C-MEETING WITH FINANCIAL OFFICIALS

1. PAULO LIRA, PRESIDENT, CENTRAL BANK:

THIS WAS BY FAR THE MOST IMPORTANT MEETING IN THIS SERIES, BOTH IN TERMS OF LIRA'S STATURE AND THE SUBSTANCE OF THE DISCUSSIONS, WHICH CENTERED ON THE INTERNATIONAL FINANCIAL SITUATION AND BRAZIL'S BALANCE OF PAYMENTS. IN BOTH AREAS, LIRA (IN CONTRAST WITH PLANNING MINISTER VELLOSO, SEE PARA 8) VOICED CONSIDERABLE UNEASINESS AND EVEN PESSIMISM.

2. IN THE INTERNATIONAL FINANCIAL AREA, LIRA SAW IN THE PRESENT CONDITION OF THE WORLD ECONOMY A UNIQUE HISTORIC OPPORTUNITY FOR STATESMANSHIP, BUT PROFESSED DOUBT THAT THE WEST WOULD SEIZE THIS OPPORTUNITY OFFERED TO IT. HIS THESIS (WHICH HE
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SAID HE HAD DISCUSSED - INCONCLUSIVELY -- WITH

MCNAMARA AND VON LENNUP) WAS TWO-FOLD. ON THE ONE HAND, THE INDUSTRIALIZED COUNTRIES WERE SOLVING THEIR BALANCE OF PAYMENTS PROBLEM RESULTING FROM THE ENERGY CRISIS LARGELY AT THE EXPENSE OF OTHERS BY SHIFTING THEIR DEFICITS TO THE NON-OIL PRODUCING LDC'S. THE RESULT WAS A PROGRESSIVE ECONOMIC DETERIORATION OF THE PERIPHERAL COUNTRIES, WITH -- IN THE LONGER TERM -- AS YET UNFORESEEABLE POLITICAL RESULTS. ON THE OTHER, THERE WAS NOW VERY CONSIDERABLE EXCESS CAPACITY AND UNEMPLOYMENT THROUGHOUT THE INDUSTRIALIZED WORLD. FOR THE FIRST TIME IN POST-WAR HISTORY, A LARGE-SCALE TRANSFER OF RESOURCES TO THE DEVELOPING COUNTRIES DID NOT HAVE TO BE ACCOMPLISHED AT THE EXPENSE OF DOMESTIC INCOME AND CONSUMPTION IN THE DEVELOPED COUNTRIES BUT, ON THE CONTRARY, COULD BECOME PART OF A COORDINATE MULTILATERAL EFFORT TO RESTORE FULL EMPLOYMENT AROUND THE GLOBE. WHAT WAS LACKING WAS AN APPROPRIATE FINANCIAL MECHANISM AND EFFECTIVE POLITICAL ADVOCACY OF A PROGRAM WHICH (HE IMPLIED) COULD HAVE POWERFUL DOMESTIC SUPPORT.

3. LIRA EXPRESSED DISAPPOINTMENT WITH THE EFFORTS TO DATE, THROUGH THE IMF AND THE DEVELOPMENT COMMITTEE, TO ASSIST THE LDCS SOLVE THEIR BALANCE OF PAYMENTS PROBLEM. HE EXPRESSED THE HOPE THAT THIS ISSUE COULD BE ADDRESSED AT THE FORTHCOMING ANNUAL MEETINGS OF THE IMF AND IBRD IN SEPTEMBER. LIRA ASKED THE UNDER SECRETARY TO CONSIDER HIS PROPOSAL. THE UNDER SECRETARY ACKNOWLEDGED THE NEED FOR A CONTINUING DIALOGUE WITH THE LDCS SO THAT THERE CAN BE A BETTER UNDERSTANDING OF THESE PROBLEMS. HE NOTED, HOWEVER, THE DIFFICULTIES INVOLVED IN GETTING CONGRESS TO APPROVE FOREIGN ASSISTANCE. THE UNDER SECRETARY ALSO MADE A POINT OF NOTING THAT, ACCORDING TO THE INFORMATION HE HAD BEEN GIVEN, BRAZIL WAS CAPABLE ITSELF OF MEETING THE KINDS OF PROBLEMS LIRA HAD DESCRIBED. LIRA, IN RESPONSE, NOTED THAT THE OTHER OFFICIALS THE UNDER SECRETARY HAD BEEN TALKING TO WERE FOCUSED ON CONFIDENTIAL

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THE MID- AND LONG-TERM, WHICH CERTAINLY WERE PROMISING. HE AND THE FINANCE MINISTER HAD TO DEAL WITH THE SHORT TERM, WHICH WAS VERY DIFFICULT. THEY AGREED TO HAVE A FURTHER EXCHANGE ON THIS SUBJECT DURING THE IMF MEETING IN WASHINGTON THIS FALL.

4. AS REGARDS BRAZIL'S BALANCE OF PAYMENTS OUTLOOK,

LIRA NOTED THE MANY UNCERTAINTIES SURROUNDING BRAZIL'S EXPORT PERFORMANCE IN THE SECOND SEMESTER, AND STRESSED BRAZIL'S DETERMINATION TO FOLLOW A CONSERVATIVE B/P POLICY IN ORDER TO MAINTAIN INTERNATIONAL CONFIDENCE REGARDLESS OF THE COSTS IN TERMS OF ECONOMIC GROWTH. HE ACKNOWLEDGED RESERVE LOSSES DURING THE FIRST QUARTER, AND IMPLIED THAT BRAZIL MIGHT CLOSE THE YEAR WITH RESERVES OF ABOUT \$4 BILLION.

5. MEETING WITH JOSE CARLOS FREIRE: IN THE ABSENCE OF MARIO HENRIQUE SIMONSEN, THE UNDER SECRETARY MET WITH THE SECRETARY GENERAL OF THE FINANCE MINISTRY FOR A REVIEW OF BRAZIL'S FINANCIAL SITUATION. A STANDARD PRESENTATION, FREIRE'S CENTRAL THESIS WAS, LIKE REIS VELLOSO'S, THAT BRAZIL WILL HAVE NO MAJOR PROBLEM IN ACHIEVING THE OBJECTIVES OF ITS MONETARY BUDGET AND BALANCE OF PAYMENTS TARGETS. HE EXPECTS INFLATION IN THE RANGE OF 22-24.5 PERCENT AND GROWTH IN THE MONEY SUPPLY OF 30 PERCENT. HE STRESSED THAT THE SEVERE SCARCITY OF LIQUIDITY EARLIER THIS YEAR (WHICH HAS RESULTED IN CONSIDERABLE SOFTNESS IN CONSUMER DURABLES AND NON-DURABLES INDUSTRIES) WAS BEING OVERCOME, AND PROJECTED A VERY SUBSTANTIAL GROWTH IN BANK CREDIT TO AGRICULTURE, INDUSTRY AND COMMERCE.

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6. ON THE BALANCE OF PAYMENTS SIDE, FREIRE REITERATED A FORECAST FOR 1975 SIMILAR TO REIS VELLOSO FOR THE CURRENT ACCOUNT OF \$5.1 BILLION, BUT A RESERVE DRAWDOWN OF ONLY \$700 MILLION, COUPLED WITH A HIGHER NET FINANCING INFLOW.

7. CALMON DE SA -PRESIDENT, BANCO DO BRASIL. THE DISCUSSION WITH CALMON DE SA WAS GENERAL, TOUCHING ON THE ROLE AND STRUCTURE OF THE BANCO DO BRASIL (WHICH PROVIDES 40 PERCENT OF THE CREDIT TO BRASIL'S PRIVATE SECTOR), INTEREST RATE LEVELS AND POLICY, FOREIGN CAPITAL INFLOWS AND BROAD ECONOMIC ISSUES.

8. REIS VELLOSO - MINISTER OF COORDINATION AND PLANNING: THE MINISTER GAVE A BROAD REVIEW OF BRAZIL'S DEVELOPMENT STRATEGY. THIS, HE SAID, WAS BASED ON THREE PRINCIPLES: (A) THE GOB DOES NOT SUPPORT ANY INTERNATIONAL MECHANISM THAT WOULD PLACE ANY KIND OF RESTRICTION OF THE ELATIONSHIP WITH THE US. (B) RELIANCE ON THE MARKET SYSTEM: I.E., AN ATTEMPT TO DEMONSTRATE THA AN LDC CAN REACH DEVELOPMENT THROUGH RELIANCE ON THE MARKET: (C) A VERY CONFIDENTIAL

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ACTIVE PUBLIC SECTOR, WHICH GUIDES DEVELOPMENT THROUGH INCENTIVES AND DIRECT PUBLIC INVESTMENT. AS PART OF HIS REVIEW, THE MINISTER HEAVILY EMPHASIZED THE NEW INITIATIVES OF THE GEISEL ADMINISTRATION IN SOCIAL WELFARE AND DEVELOPMENT. HE SAID BRAZIL EXPECTED TO REACH ALL GOALS THIS YEAR, INCLUDING A REDUCTION OF THE ROLE OF INFLATION TO 22 - 24.5 PERCENT AND A RISE IN REAL WAGES OF UP TO 5 PERCENT. HE THOUGHT THE LEVEL OF BUSINESS ACTIVITY WOULD BE MORE UNIFORMLY HIGHER IN THE SECONS SEMESTER THAN IN THE FIRST. WHEAT PRODUCTION WOULD INCREASE TO 80 PERCENT OF DOMESTIC CONSUMPTION THIS YEAR, SOYBEANS PRODUCTION WOULD BE HIGHER BY SOME 20 PERCENT.

9. WITH RESPECT TO THE BALANCE OF PAYMENTS OUTLOOK, THE MINISTER WAS OPTIMISTIC. EXPORTS HAD TURNED IN A BRILLIANT PERFORMANCE SO FAR THIS YAR (UP TO 40 PERCENT IN FIRST SEMESTER), INCLUDING A 30 PERCENT RISE IN EXPORTS OF MANUFACTURED GOODS. BASED ON FIRST SEMESTER PERFORMANCE, HE THOUGHT A REDUCTION OF THE TRADE DEFICIT TO \$2.5 BILLION READILY ATTAINABLE, WITH EXPORTS OF \$10 BILLION AND IMPORTS STABILIZED AT \$12.5 BILLION.

INFLOWS OF FINANCIAL CREDITS WERE \$500 MILLION IN JUNE, AND AN AVERAGE OF \$ &0#MILLION IN PREVIOUS MONTHS. FOR THE MEDIUM-TERM, THE OBJECTIVE WOULD BE TO PROVIDE AS MUCH FLEXIBILITY IN CAPITAL GOODS AS POSSIBLE, BY REDUCING IMPORT REQUIREMENTS FOR PRIMARY PRODUCTS AS THE VARIOUS SELF-SUFFICIENCY FOR BASIC MATERIALS GAIN MOMENTUM. THIS YEAR CAPITAL GOODS IMPORTS WERE EXPECTED TO REACH \$4 BILLION, UP FROM \$1.1 BILLION IN 1974.

10. ON PETROLEUM STRATEGY, REIS VELLOSO SAID THE OBJECTIVE WAS TO KEEP BRAZIL'S FUEL BILL CONSTANT THROUGH 1977 UNTIL CAMPOS AND OTHER NEW AREAS WERE BEGINNING TO PRODUCE. (THE MINISTER EMPHASIZED THAT BRAZIL HOPED TO ACCELERATE
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DEVELOPMENT OF THE BASIN SUBSTANTIALLY THROUGH A SYSTEM OF TEMPORARY PLATFORMS.) THIS WOULD BE DONE BY CURTAILING DEMAND AND INCREASED PRODUCTION IN THE NORTHEAST. HE CONCEDED THAT NO ALLOWANCE HAD BEEN MADE IN BRAZIL'S PLANS FOR POSSIBLE PRICE INCREASES FOR PETROLEUM BUT THOUGHT THAT BY 1977 BRAZIL'S TRADE OUTLOOK WOULD BE SUBSTANTIALLY MORE FAVORABLE BECAUSE OF THE RECOVERY OF THE WORLD ECONOMY AND SELF-SUFFICIENCY IN FERTILIZER. THE MINISTER SAID, THAT IF NECESSARY, BRAZIL WOULD TRY TO REDUCE IMPORTS THROUGH DIRECT MEASURES: UNDER NO CIRCUMSTANCES WOULD THE GOB TOLERATE A SUBSTANTIAL INCREASE IN ITS FUEL BILL.
CRIMMINS

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